

# Supporting the Army in Transition

## Outsourcing as a Solution

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**T**his article focuses on challenges that Army commanders and program managers are facing during transformation and reviews the recent trend toward outsourcing as the solution. It also examines why and how the Army is leaning toward outsourcing and features the Army's newest tool specifically designed to support current thinking and emergent requirements, the HRXXI Century Contract.

### The Need for Change

In the fall of 1999, Army Chief of Staff Gen. Eric K. Shinseki announced his vision to transform the Army into a "...responsive force that is dominant across the full spectrum of operations."<sup>1</sup> The first priority in the transformation was to staff the Army's fighting units to 100 percent by the end of fiscal 2000.

By the summer of 2000, transformation was well underway with thousands of soldiers under orders to move from administrative and installation support assignments to combat divisions and armored cavalry regiments; and additional new recruits also under orders to move directly from initial training to fill vacant operational positions. By October 2000, the Army's 10 active component divisions and the armored cavalry regiments will be fully manned.

For the most part, the soldiers moving from administrative and support jobs have not been replaced, generating a need at the affected installations to reengineer their administrative and support operations so that essential services are continued without interruption. The transformation will continue through



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fiscal 2003 as the Army moves to adjust grade and skill imbalances in the deployable forces; fully staff all operational units; and, finally, restore full staffing to a restructured administrative and support force for Army installations.

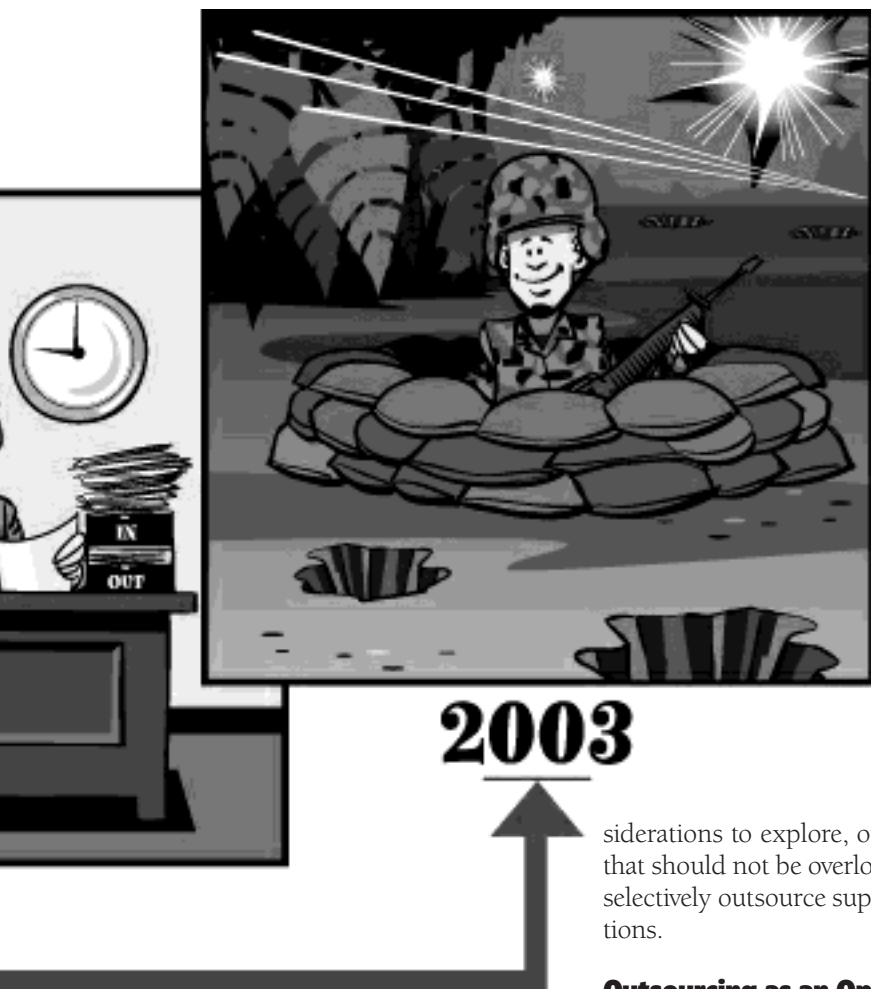
### Coping with Transformation

How are commanders and managers in support roles coping with the loss of soldiers performing essential non-combat duties? Someone has to maintain service records, process incoming and outgoing

soldiers, provide local protection and security, perform related personnel and logistical support functions, and maintain other base operations support functions. For example, in 2000 alone, planning studies suggest that over 1,400 soldiers performing personnel and community service support are earmarked for transfer without replacement.

Early indications are that local installations have not yet fully identified, nor experienced, the full impact of the new

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## The outsourcing option is fast becoming the method of choice to solve personnel shortfalls.

with career counselors who understand the private sector marketplace because they are part of it. The impact of the recent trend to outsource is creating shifts in the labor mix among military, federal civilian employees, and private sector employees. At the same time, the trend, together with Shinseki's initiative, makes it increasingly important for commanders and managers to become knowledgeable of contracting opportunities that are available to outsource local support functions.

### The Outsourcing Decision

The announcement of an Office of Management and Budget Circular A-76 study is usually met with strong reservations and concerns by the civil servants in the affected functional area. Understandably, employees are concerned that this process will eliminate their jobs.

The basic purpose of an A-76 study is to determine the cost efficiency of retaining or contracting out services currently being provided by government organizations. To perform the study, the government compares the cost of performing the function in-house with the cost of contracting out.

First, the government must examine the current in-house function and re-engineer it, if possible, to be more efficient. The resulting "Most Efficient Organization" to be used in the competition against the private sector is typically 30

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siderations to explore, one option that should not be overlooked is to selectively outsource support functions.

### Outsourcing as an Option

Over the past 10 years, the Army has amassed vast experience in outsourcing support functions to the private sector. Prior to this time, the trend was to perform work in-house. For the most part, outsourcing has been popular with commanders. Tapping the free enterprise system has brought Wendy's and McDonald's to military posts everywhere, bringing a little bit of home even to overseas locations. Also, using commercial banks has provided timely and convenient customer service with equal graciousness, regardless of rank.

In addition, the Army using outsourcing contracts provides transition services

policy. Some installations may have limited impacts; others may feel significant impact from the reduced staffing, as large numbers of soldiers are lost without replacement.

The reductions are generally being taken horizontally, or across all functions, instead of vertically, or eliminating entire functions. This defuses the impact of the loss and decentralizes management of the reductions to the lowest operating level. In many circumstances, the operational tendency will be to tighten the belt and encourage the remaining workforce to work harder and smarter to offset the manpower losses. This may not be the best solution. A more efficient response would be to re-engineer local support functions and devise a more effective way to accomplish Army missions. Certainly, each manager is confronting the challenge with a unique set of circumstances that largely influence the solution. While there are numerous con-

### Man-Year Costs (in dollars) for Administrative Specialist

	E-1/3	E-4	E-5	E-6	E-7	E-8	E-9
<b>MPA</b>	32,596.52	41,256.50	50,454.79	60,586.22	71,783.67	82,623.25	95,738.13
<b>OMA</b>	3,890.01	5,648.49	8,857.68	11,624.46	13,384.97	14,909.35	14,425.79
<b>Other</b>	561.28	581.17	606.42	665.04	684.31	685.74	685.74
<b>Total</b>	37,047.81	47,486.16	59,918.89	72,875.72	85,852.95	98,218.34	110,849.66

percent smaller than it was before the study was initiated.

Very often, the results of these studies lead to decisions to contract out selected functions. In almost all circumstances, the numbers of people performing a studied function are reduced.

In the case of replacement of soldiers moving from the TDA [Table of Distribution and Allowances] Army to the combat Army, the decision to move the soldiers has already been made and is not based on the outcome of an A-76 competition. Still required, however, is a basis of determining the appropriate labor mix to fill the void left by transitioning soldiers from the TDA to the combat Army, and how to create the most efficient organization and workforce.

### **Analysis of Staffing Costs**

Even though the rates of many contractors appear higher than those of government employee and military pay rates, often the overall performance cost is less. How could that be? The numbers tell the story.

### **Productive Hours**

First, the productive hours available to perform the work need to be considered. According to Army Regulation (AR) 570-4,<sup>2</sup> soldiers in the TDA, as opposed to combat-related jobs, and Department of Army civilians have a manpower availability work year of 1,740 hours; that compares to a private industry standard of about 1,920 (the actual numbers vary by company). The disparity between the two standards is due to the additional vacation time, training, special duty, and related requirements that Federal Government employees accrue compared to employees in the business world.

### **Man-Year Cost**

Second, the cost, specifically of the military, needs to be considered. What is not so widely recognized is the much higher man-year cost of a military member compared to an equally experienced and skilled federal civilian employee.

Each year the Army quantifies military man-year costs by pay grade and skill

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designator so that accurate costs to the taxpayer can be maintained. This man-year cost is roughly equivalent to the fully burdened (overhead and fringe benefit) cost found in the private sector and used in cost comparisons for A-76 studies.

For example, the average man-year cash pay for an Infantryman, Military Occupational Specialty (MOS) 11B in pay grade E-7 is \$42,260.56. However the average man-year cost of this individual to the taxpayer is \$91,621.82.<sup>3</sup> The differential of about 125 percent is composed of such non-cash costs as recruiting, accrual cost of the retirement pay system, average cost of reenlistment bonuses, and other similar costs.

Interestingly, the man-year cost for the Infantryman exceeds that of an Administrative Specialist (MOS 71L) in every pay grade, peaking at almost a 7 percent differential in pay grade E-7. The table on p. 39 itemizes the man-year costs for an Administrative Specialist across enlisted pay grades and by budget activity such as Military Pay/Army (MP/A); Operations and Maintenance, Army (OMA); and miscellaneous accounts such as GI Bill and training, other than OMA.

Actually, the military man-year cost differences, when compared to the private sector, are even greater than shown in the table. Costs not included in the table are the range of support costs found in

the common industry overhead rate. The non-included costs are for functions such as administrative support (personnel, pay, and benefits), utilities, office space, and equipment.

Clearly, from these cost compilations, a soldier is indeed an expensive resource for the taxpayer. This is why the Army is reducing the TDA Army while fully staffing the combat Army. Unfortunately, the total military costs are mostly hidden because they are spread across different budget line items and are not collectively addressed during budget deliberations.

A complete rundown on Army military and civilian manpower costs, by skill area and pay grade, from the Army Military-Civilian Cost System (AMCOS)<sup>4</sup> can be downloaded from the U.S. Army's Cost and Economic Center main menu on the World Wide Web at: <http://www.ceac.army.mil/>.

### **When to Consider Outsourcing**

The foregoing costing comparison leads to the question of when installation commanders and managers should consider the outsourcing option for replacing military TDA manpower spaces. To qualify as a potential client for an outsourcing effort, a work center manager must meet three decisive criteria: there must be a problem; the manager must want to solve the problem; and the manager must have the resources or the ability to get the cooperation and support of his or her senior leadership in solving the problem.

Many managers probably already have more problems than they can readily solve. An unplanned shortage of soldiers to perform essential tasks will just be another issue to deal with. Once a decision is made to solve the problem, the manager must then mobilize resources to effect a reasonable solution.

Basically, the manager has several available options. Assuming a permanent fix is preferred, the first choice might be to replace the soldier with a federal civilian employee. If this option is not available, consideration may be given to performing the mission with temporary

help. This option is generally a stopgap measure at best because of training requirements, high turnover, lack of organizational commitment, or for other good reasons. That leaves the outsourcing option.

### **Contract Help Available for Commanders, Managers**

Once the decision is made to outsource, what is the next step? Two options are available. The first option is to attempt to have a contract awarded to support the need, and the second option is to find an existing contract.

#### **Contract Award to Meet the Need**

Let's consider the first option — pursuing a contract award to meet the need. While it is no great secret how to place a service function under contract, the process can be challenging and time consuming. The government has intentionally created a myriad of structures, review authorities, and regulations to assure competitive fairness and to safeguard the public interest in outsourcing actions.

Originally designed primarily to prevent corruption, contract procedures have evolved into a daunting obstacle course that wears out all but the most persistent manager.

Most Federal Government procurement activities are regulated by the Federal Acquisition Regulation (FAR). The FAR establishes rules regarding the use of contracts in procuring goods and services for the government.

Contracts range from the fast but difficult-to-justify, noncompetitive procurement to the slow and labor-intensive open competition procurement. Generally, sole-source procurements are regarded as the exception to open competition and appropriate only in limited circumstances. The circumstances must be justified and include urgency of need, availability of only a single source, or a proprietary product produced by the provider that is not available elsewhere. Justifying sole source for the type services discussed in this article is difficult.

#### **Full and Open Competitive Process**

Unfortunately, the alternative of a full and open competitive process is time consuming if there is a need for a substantial level of services. If the need can be satisfied with a procurement of \$25,000 or less, then a simplified telephone solicitation process could result in a "purchase order." But if the need is over \$25,000, full competition is necessary. Even if under \$25,000 and the need is repetitive, a series of purchase orders could be time consuming.

#### **Existing Contract Vehicles**

If this process sounds too difficult, then let's review the use of existing contract vehicles. These typically are written on an open basis and allow anyone with a need and money to obtain services they need quickly. Typically, existing contracts have already been competed; so the requirement for competition is satisfied.

The first decision criteria in identifying the existing contract that is most appropriate is to determine if a contract from a local contract office will support the requirement, or if the assistance of a broader-based contract generated by another contract office is needed. Local contract offices can usually handle small requirements under \$25,000. However, to obtain the best value for the government, projects that have a higher price tag should typically be procured through a large, omnibus contract. Large, omnibus contracts provide access to a wide range of services.

#### **Types of Contracts**

The next step for the manager is to determine what contract should be selected for the work to be accomplished. In the case of replacing soldiers performing routine, non-combat support or administrative tasks, there are three types of contracts commonly available: fixed price, cost plus fixed fee, and time and materials. Each is constructed to focus on a specific type of work environment.

##### **FIXED PRICE CONTRACT**

The fixed price contract is usually the most preferable for the government. The entire risk of performance is assumed by the contractor to perform the job

within the time and cost that were originally estimated. This type of contract is used when the desired product is well defined and there is no ambiguity between the government and the contractor on required deliverables.

##### **COST PLUS FIXED FEE CONTRACT**

A cost plus fixed fee contract, on the other hand, shifts the risk to the government and is appropriate when the required product is not clearly defined or may change during the course of the contract period. This type contract covers all reasonable costs associated with performing required services, and provides the contractor a pre-negotiated, fixed fee, usually based on a percentage of contract costs.

##### **TIME AND MATERIALS CONTRACT**

The time and materials type of contract is selected when the government wants to buy labor services on an hourly basis and materials on a reimbursable basis. The contract is suited for work when there is a well-defined notion of the labor qualifications to do the job, but the level of services and material is not well defined. The downside of this contract is that the qualifications to do the job assume more importance than the productivity of the individual or firm selected for the task. It is a form of a fixed priced contract with the hourly price specified; like hiring a plumber at a fixed hourly rate to do a plumbing job, the final cost is dependent on the productivity of the worker.

The smart manager will take advantage of the flexibility in federal procurements and conduct his or her own shopping expedition to secure the contract vehicle that best fits the unique circumstances. Currently, the most widely used available option for the enterprising government manager with a large project is to outsource through a government-wide, multiple-award contract.

#### **The Government-Wide, Multiple-Award Contract Option**

Using an available government-wide, multiple-award contract that was developed for use by any federal agency is an attractive option for the busy manager.



Managers often do not have the luxury of time or staff for the months of intensive work required to initiate a new competitive contract. The General Services Administration (GSA) has a range of contract options from which to select qualified professional services providers. The full range of schedules the GSA offers for available services is found on the GSA Web site at <http://www.gsa.gov>.

### **The Army's Newest Innovative Approach**

In the late 1990s, anticipating substantial changes in human resource services and support, the Army constructed the HRXXI contract to meet its emerging requirements. This Army-focused government-wide, multiple-award contract is ideal for activities affected by the Army in transformation. Sponsored and managed by the Office of the Assistant Secretary of the Army for Manpower and Resource Affairs, this contract offers a quick and easy way to outsource work previously performed by soldiers.

The full and open competition for the HRXXI base contract, the buying power of a large omnibus contract, and ongoing competition between contractors for individual task orders result in a highly cost-effective option. The HRXXI Statement of Work covers the entire range of personnel and administrative-related efforts and is uniquely designed to support the military services at local and headquarters levels. Managers across the Army are discovering and using this new tool to re-engineer their unique programs and to efficiently support their mission.

Like many large acquisition efforts, the contract is administered by a support staff that completes most of the work in moving a Statement of Work to a contract. Additional information on this contract, procedures to be followed to obtain services under the contract, and details on the type of work that can be accepted can be found at <http://www.hrxxi.army.mil>.

### **A Road Map For Achieving Positive Results**

The busy and efficient manager always looks for solutions that provide the best

return to the taxpayer. Often these solutions can be accomplished by a simple realignment of tasks or laying more work on your best employees. At some point, this strategy will not work and should be replaced with a contracting vehicle for selective outsourcing. The transforming Army will stretch the ingenuity of the local installation manager over the next few years as the total realignment takes place.

At this time, all indicators suggest that it will become increasingly difficult to solve emerging crises with the same old ways of doing business. New and innovative ways of accomplishing the mission will be needed to carry on the tasks at hand. The prudent manager will take charge and mobilize the resources that are necessary to get the job done.

The outsourcing option is fast becoming the method of choice to solve personnel shortfalls. The most difficult part of getting a project under contract, however, is having the will to see it through. To date, no shortages of naysayers exist who will throw obstacles in the manager's path. Several areas to consider as one proceeds down the contract path are worthy of mention:

- Understand the territory by having a rudimentary idea of basic contract procedures. Know the advantages and disadvantages of sole-source procurements. Recognize the difficulty and time involved in getting a new competitive procurement drafted, approved, and in-place. Research the availability of multiple-award contracts.
- Be realistic. Get a good sense of the ultimate fairness of using the fair market system inherent in private industry, and use it to the advantage of the taxpayer. Don't shy away from the private sector. The open market has a way of self-regulation that inevitably results in a fair price regardless of what the profit margin is.
- Be diligent. The contract manager is like a captain on a sailing ship. The manager ensures that the project remains on course and the ship is prop-

erly provisioned and crewed to get where it's supposed to go. Wasteful deviations are quickly corrected, and the crew understands who is in charge. The manager keeps the destination firmly in mind and is persistent about getting there on schedule.

- Do the right thing. No rule is in place to govern every situation. Considerable latitude is offered by the FAR to get the job done. A keen sense of right and wrong is necessary to guide decisions that fall into regulatory gray areas. When in doubt, consult wiser and more experienced managers.

### **Final Thoughts**

Army Transformation is underway. It promises to challenge installation managers with thousands of soldiers transferred without relief in 2000 alone, with additional thousands to follow over the next two years. Doubling up, re-engineering, function elimination, and outsourcing are all going to be taken to their limits. If outsourcing is the preferred option, installation commanders and managers should consider taking advantage of available contract vehicles already in place to quickly respond to military manpower shortfalls.

Be aware that most major government-wide, multiple-award contracts carry a small administrative fee to cover the cost of the contract and to support contract administration. Generally, it seems a small price to pay for a cost-effective solution and the convenience of program and functional continuity.

**Editor's Note:** The author welcomes questions and comments on this article. Contact her at [Susan.Harvey@HQDA.Army.Mil](mailto:Susan.Harvey@HQDA.Army.Mil)

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### **ENDNOTES**

1. HQDA Message 081200Z (Washington, D.C., November 1999).
2. Army Regulation (AR) 570-4, Manpower Management (HQDA, Sept. 25, 1989).
3. Army Manpower Military-Civilian Cost System 1998 (updated with 2000 pay rates).
4. Ibid.